

## Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 EB-08 TRSE-00 CIAE-00 INR-07  
NSAE-00 SS-15 NSC-05 SP-02 EUR-12 DOE-11 SOE-02  
PRS-01 /078 W  
-----111609 232325Z /66  
R 232130Z JAN 78  
FM AMEMBASSY KINGSTON  
TO SECSTATE WASHDC 9373

C O N F I D E N T I A L SECTION 1 OF 2 KINGSTON 0512

E.O. 11652: GDS  
TAGS: EFIN, PGOV, JM  
SUBJECT: MEETING WITH PRIME MINISTER MANLEY ON NORTH/SOUTH  
DIALOGUE, IMF, LDC DEBT, AND RELATED TOPICS

1. SUMMARY. IN A FORTY MINUTE MEETING WITH PRIME MINISTER  
MANLEY HE SPECULATED ON MEANS FOR GETTING THE NORTH/SOUTH DIA-  
LOGUE BACK ON THE TRACKS AND SPECIFICALLY FOR SALVAGING THE  
COMMON FUND TALKS. HE ALSO EXPRESSED BITTERNESS AT THE ACTIONS  
OF THE IMF IN FINDING THAT JAMAICA HAD FAILED CRITICAL TESTS  
UNDER THE STANDBY BUT INDICATED THAT HIS GOVERNMENT WOULD REACH A  
NEW ARRANGEMENT WITH THE IMF PROVIDING THE CONDITIONS WERE  
REASONABLE BECAUSE THERE WAS NO ALTERNATIVE. FINALLY, MANLEY  
SPOKE PESSIMISTICALLY ABOUT THE ECONOMIC OUTLOOK FOR THE  
WORLD OVER THE NEXT THREE TO TEN YEARS PARTLY BECAUSE OF THE  
ENERGY CRISIS AND PARTLY BECAUSE OF THE CRITICAL PROBLEM OF  
LDC DEBT. END SUMMARY.

2. I TOOK ARA/CAR COUNTRY DIRECTOR ASHLEY HEWITT TO CALL ON  
PRIME MINISTER MICHAEL MANLEY AS THE FIRST STOP IN  
HEWITT'S THREE DAY VISIT TO JAMAICA. THE CALL TURNED  
INTO A SPIRITED FORTY MINUTE DISCUSSION ON THE NORTH/  
SOUTH DIALOGUE, JAMAICA'S PROBLEMS WITH THE IMF, AND  
THE ECONOMIC PROSPECTS FOR THE WORLD OVER THE COMING  
YEARS. MANLEY SAID THAT AS A RESULT OF HIS DISCUSSIONS  
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IN OTTAWA WITH PRIME MINISTER TRUDEAU WHICH HAD FOLLOWED  
HARD ON THE HEELS OF HIS VISIT WITH PRESIDENT CARTER, HE  
HAD BEEN GIVING SERIOUS THOUGHT TO WAYS IN WHICH THE  
NORTH/SOUTH DIALOGUE AND PARTICULARLY THE COMMON FUND  
DISCUSSIONS COULD BE GOTTEN BACK ON THE TRACK. HE SAID  
THAT HE HIMSELF HAD NOT PREVIOUSLY FOCUSED ON THIS ISSUE  
DESPITE HIS COUNTRY'S LEADERSHIP ROLE IN THE NORTH/SOUTH

DIALOGUE BECAUSE OF PRESSING POLITICAL AND ECONOMIC PROBLEMS AT HOME. AFTER GOING OVER THE GROUND WITH HIS ADVISORS HE HAD CONCLUDED THAT SALVAGING THE COMMON FUND NEGOTIATIONS WAS THE KEY TO GETTING THE NORTH/SOUTH DIALOGUE MOVING AGAIN. HE HAD ALSO DECIDED THAT AT LEAST ONE OF THE REASONS THE COMMON FUND TALKS HAD COLLAPSED WAS POOR STRATEGY ON THE PART OF THE DEVELOPING COUNTRIES. HE SAID THE LDCS HAD TRIED TO LOAD TOO MUCH ONTO THE COMMON FUND AND THE RESULT WAS INEVITABLE. AS HE SAW IT THE LDCS HAD ASKED THE COMMON FUND TO DO THREE DIFFERENT JOBS. THE FIRST WAS STABILIZATION OF COMMODITY PRICES PURE AND SIMPLE. THE SECOND WAS TO BRING ABOUT SOME RELATIONSHIP BETWEEN COMMODITY PRICING AND INFLATION IN DEVELOPED COUNTRIES, A CONCEPT THE LDCS LABELED INDEXATION AS A WORD OF ART, BUT WHICH COULD NOT BE AS SIMPLISTIC AS THIS TERM SOUNDED. THIRDLY, AND THIS IS WHERE MANLEY THOUGHT THE LDCS HAD ERRED, THE COMMON FUND HAD BEEN ASKED TO BECOME A LEADING MECHANISM OF RESOURCE TRANSFER FROM DEVELOPED TO DEVELOPING COUNTRIES. MANLEY SAID THAT HE INTENDED TO EXPLORE WITH BOTH DEVELOPED AND DEVELOPING COUNTRIES THE IDEA OF RESUMING THE COMMON FUND TALKS FOCUSING EXPLICITLY ON STABILIZATION AND SOME MECHANISM FOR ADJUSTING COMMODITY PRICES TO AT LEAST PARALLEL INFLATION IN DEVELOPING COUNTRIES AND EXPLICITLY EXCLUDING USE OF THE COMMON FUND AS A MECHANISM FOR AFFECTING RESOURCE TRANSFERS.

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3. MANLEY WENT ON TO SAY THAT HE REGARDED IT AS ESSENTIAL TO TIE ENERGY INTO ANY FORMULA AFFECTING OTHER COMMODITIES. INDEED, HE SAID UNDER JAMAICAN LEADERSHIP THE LDCS WOULD BRING PRESSURE ON THE MAJOR OIL PRODUCERS TO ACCEPT ORDERLY AND RESPONSIBLE ENERGY PRICING POLICIES IN EXCHANGE FOR ACCEPTANCE BY THE DEVELOPED COUNTRIES OF SOME MEANS OF ADJUSTING COMMODITY PRICES, INCLUDING OIL, TO INFLATION IN DEVELOPED COUNTRIES. HE FELT SUCH AN AGREEMENT COULD CLEAR THE WAY FOR LARGE SCALE TRANSFERS OF RESOURCES TO DEVELOPING COUNTRIES FROM BOTH THE INDUSTRIALIZED COUNTRIES AND FROM DEVELOPING COUNTRY ENERGY PRODUCERS. HE EMPHASIZED THAT THE BURDEN OF BACKING DEVELOPMENT IN THE THIRD WORLD RESTED ON BOTH OF THEM. MANLEY SAID HE FULLY ACCEPTED THE PROPOSITION THAT EXISTING INSTITUTIONS SUCH AS THE IMF AND THE WORLD BANK COULD AND SHOULD BE USED AS THE PIPE LINE FOR THESE RESOURCES.

4. HEWITT MADE CLEAR THAT HE WAS NO LONGER INVOLVED IN ANY ASPECT OF THE NORTH/SOUTH DIALOGUE AND HAD NO AUTHORITY TO SPEAK FOR THE USG IN THIS AREA. HOWEVER,

SPEAKING FOR HIMSELF, HE WAS ENCOURAGED THAT THE PRIME MINISTER WAS TAKING A PERSONAL INTEREST IN THIS ISSUE. HE AGREED THAT THE TENDENCY OF THE LDCS TO LOOK ON THE COMMON FUND AS A POTENTIAL AVENUE FOR THE TRANSFER OF RESOURCES WAS ONE OF THE DIFFICULTIES IN REACHING AGREEMENT ON THE COMMON FUND. HE ALSO NOTED THAT THE WHOLE QUESTION OF INDEXATION WAS AN EXTREMELY DIFFICULT ONE FOR US AND FOR A NUMBER OF OTHER INDUSTRIALIZED COUNTRIES. HE SAID THAT HE WOULD REPORT THE PRIME MINISTER'S THOUGHTS, AND THAT WE WOULD LOOK FORWARD TO HEARING THE RESULTS OF HIS CONSULTATIONS WITH OTHER GOVERNMENTS IN BOTH DEVELOPED AND DEVELOPING COUNTRIES.

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ACTION ARA-14

INFO OCT-02 ISO-00 EB-08 TRSE-00 CIAE-00 INR-07  
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FM AMEMBASSY KINGSTON  
TO SECSTATE WASHDC 9374

C O N F I D E N T I A L SECTION 2 OF 2 KINGSTON 0512

C O R R E C T E D C O P Y (PARA 8)

5. TURNING TO DOMESTIC PROBLEMS MANLEY EXPRESSED BITTERNESS AT WHAT HE DESCRIBED AS THE "BRUTAL" DECISION BY THE IMF IN FINDING JAMAICA WANTING UNDER THE TERMS OF THE STANDBY AGREEMENT. HE EMPHASIZED THAT THE GOJ HAD MET MOST OF THE CONDITIONS OF THE AGREEMENT INCLUDING THOSE THAT WERE MOST DIFFICULT FOR IT, WHILE THOSE IT HAD FAILED HAD BEEN MISSED BY RELATIVELY NARROW MARGINS. HE SAID THAT JAMAICA'S FAILURE TO MEET THE DOMESTIC ASSETS TEST HAD ARISEN SIMPLY FROM BAD MANAGEMENT ON THE PART OF HIS TECHNICIANS AND THAT HE HAD BEEN SHOCKED AND DISMAYED WHEN HE DISCOVERED IT. IT WAS PARTICULARLY UNFORTUNATE, HE ADDED, BECAUSE HAD HE AND OTHER POLICY LEVEL PEOPLE BEEN AWARE OF THE SITUATION ENOUGH ASSETS COULD HAVE BEEN WITHHELD FROM THE BANKS TO PERMIT PASSING OF THE TEST WHICH WAS MISSED BY ONLY NINE MILLION DOLLARS. THIS WAS A CONSTRICTION ALMOST NO ONE WOULD HAVE NOTICED GIVEN THE AUSTERITY MEASURES HIS GOVERNMENT

HAD ALREADY PUT INTO EFFECT.

6. MANLEY NOTED THAT AN IMF TEAM WAS COMING TO JAMAICA NEXT WEEK TO RESUME DISCUSSIONS AND THAT HE HAD EARLIER SENT FINANCE MINISTER DAVID COORE TO WASHINGTON TO TELL WITTEVEN OF THE IMF THAT THE GOJ WAS PREPARED TO CON-  
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CLUDE A NEW THREE YEAR AGREEMENT PROVIDING THE CONDITIONS WERE REALISTIC AND SOMETHING JAMAICA COULD LIVE WITH WITHOUT STRANGLING, AND ALSO PROVIDING THAT THE IMF WENT TO BAT FOR JAMAICA IN THE INTERNATIONAL FINANCIAL COMMUNITY. MANLEY SAID THAT IN THE ABSENCE OF SUCH UNDERTAKINGS JAMAICA MIGHT JUST AS WELL COMMIT SUICIDE BECAUSE A NEW STANDBY WAS NO MORE LIKELY TO HOLD TOGETHER THAN THE RECENT ONE. HE SAID THAT WITTEVEN AND THE CANADIAN DIRECTOR OF THE IMF, WHO REPRESENTS JAMAICA, MADE ENCOURAGING NOISES WITHOUT COMMITTING THEMSELVES. HOWEVER, THE IMF'S REAL ATTITUDE WOULD EMERGE IN THE COURSE OF THE CONSULTATIONS NEXT WEEK.

7. HEWITT SAID THAT THE USG AS A MATTER OF POLICY REMAINS STRICTLY NEUTRAL AND PLAYED NO PART IN DISCUSSIONS BETWEEN THE IMF AND OTHER GOVERNMENTS. HOWEVER, HE NOTED THAT ASSISTANT SECRETARY BERGSTEN OF THE TREASURY HAD MET WITH AMBASSADOR RATTRAY WITH REGARD TO JAMAICA'S FINANCIAL PROBLEMS AND SAID THAT WE HAD ENCOURAGED BOTH SIDES TO CONTINUE DISCUSSIONS UNTIL A SOLUTION COULD BE REACHED.

8. PRIME MINISTER MANLEY WENT ON TO SAY HIS VIEW OF THE ECONOMIC FUTURE OF THE WORLD OVER THE NEXT THREE TO TEN YEARS WAS INCREASINGLY GLOOMY BECAUSE OF THE CONTINUING AND UNRESOLVED ENERGY CRISIS, AND BECAUSE OF THE CRUSHING BURDEN OF LDC DEBT. THERE WAS NO WAY THE DEVELOPING COUNTRIES COULD CONTINUE TO DEVELOP AND COPE WITH THEIR PROBLEMS UNLESS THE DEBT ISSUE WERE ADDRESSED. THERE WAS ALSO NO WAY THE LDCS COULD CONTINUE TO IMPORT FROM DEVELOPED COUNTRIES. HE REALIZED THAT LDC IMPORTS CONSTITUTED A RELATIVELY SMALL PERCENTAGE OF ALL EXPORTS OF DEVELOPED COUNTRIES, BUT HE INSISTED THAT AT  
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THE MARGIN IT WAS A SIGNIFICANT AND EVEN CRITICAL PROPORTION. RETURNING TO HIS EARLIER THEME OF THE IMPORTANCE OF GETTING COMMODITY PRICES INCLUDING ENERGY INTO SOME KIND OF

PREDICTABLE RELATIONSHIP TO THE PRICES OF INDUSTRIAL GOODS, MANLEY QUOTED A METAPHOR OF JOMO KENYATTA'S SAYING THAT THE INDUSTRIAL COUNTRIES AND THE ENERGY PRODUCERS WERE LIKE TWO GIGANTIC ELEPHANTS LOCKED IN MORTAL COMBAT WHILE THE OTHER DEVELOPING COUNTRIES WERE THE BLADES OF GRASS OVER WHICH THE TWO BEHEMOTHS THUNDERED BACK AND FORTH. I RESPONDED THAT WE HAD NO EASY ANSWERS TO THE DEBT PROBLEM BUT THAT WE RECOGNIZED ITS SERIOUSNESS. I SUGGESTED THAT THE BEST WAY TO APPROACH IT WAS TO GET THE NORTH/SOUTH DIALOGUE MOVING AGAIN AND THAT WE WOULD CAREFULLY REPORT THE PRIME MINISTER'S IDEAS ON THIS SUBJECT.

9. MANLEY SAID THAT HE WAS LEAVING IN A WEEK AND A HALF ON A TRIP TO GREAT BRITAIN, WEST GERMANY, AND HUNGARY, AND THAT HE PLANNED TO CONSULT WITH CHANCELLOR SCHMIDT AND PRIME MINISTER CALLAGHAN ON WAYS OF ENERGIZING THE NORTH/SOUTH DIALOGUE. HE ALSO INDICATED THAT HE HAD DISCUSSED SOME OF HIS IDEAS WITH PRESIDENT CARLOS ANDRES PEREZ OF VENEZUELA.

10. COMMENT: MANLEY'S FORTHCOMING MEETINGS WITH CALLAGHAN AND SCHMIDT MAY CONSTITUTE AN OPPORTUNITY FOR EXPLORING HIS IDEAS FURTHER AND PERHAPS FOR INFLUENCING THEIR DEVELOPMENT. THIS COULD BE SIGNIFICANT IN VIEW OF JAMAICA'S LEADERSHP ROLE IN THE THIRD WORLD AND WHAT SEEMS TO BE MANLEY'S INTEREST IN PLAYING A PERSONAL PART IN IT.

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## Message Attributes

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